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SCENARIO NOTE TO THE ASSOCIATE DEPUTY MINISTER

CALL BETWEEN ASSOCIATE DEPUTY MINISTER OF NATURAL RESOURCES AND STUART LUNN, VICE PRESIDENT OF POLICY AND ADVOCACY, IMPERIAL OIL

MEETING DETAILS

- **DATE/TIME**: Thursday, May 7, 2020 – 1:00 P.M. to 13:45 P.M.
- **LOCATION**: Call
- **PARTICIPANT**:
  - Stuart Lunn, Vice President of Policy and Advocacy, Imperial Oil
  - Alison Miller, Imperial Oil

ISSUE

- During the April 21, 2020, call with Imperial Oil, you expressed interest in understanding the business case for a delay in the Clean Fuel Standard (CFS), as well as Imperial Oil's position on recovery from the current downturn.

HIGHLIGHTS/KEY CONSIDERATIONS

- This call provides an opportunity to clarify precisely which information Imperial Oil is able to provide regarding the company's compliance with the CFS.

- Imperial Oil would like to work with Natural Resources Canada to build a case for taking the time to design the CFS program to better reflect the new paradigm while still meeting its key targets and objectives.

- On April 24, 2020, Environment and Climate Change Canada (ECCC) announced a delay in the publication of the draft regulations for the liquid fuel stream in Canada Gazette I (CG1), from June 2020 to fall 2020.

KEY BACKGROUND

Company Profile

- Imperial Oil is a significant, integrated producer of crude oil, diluted bitumen and natural gas, a major petroleum refiner, a key petrochemical producer and a national marketer with coast-to-coast supply and retail networks.
  - Imperial Oil owns 25% of Syncrude, a 360,000 barrel per day (b/d) oil sands mining and upgrading project, and is part of a joint venture at the Kearl oil sands mining operation (270,000 b/d).
  - Imperial Oil's Cold Lake operation is the longest-running oil sands operation in northeastern Alberta, and one of the largest thermal in-situ heavy oil operations in the world.

Recent Announcements

- Imperial Oil recorded an estimated net loss of $188 million in the first quarter of 2020. The company stated the strength of its integrated business model was evident in the quarter, with its downstream operations delivering robust financial results.
    - Operational performance in the quarter was highlighted by strong upstream volumes of 419,000 oil-equivalent b/d. This result was driven by Kearl, which achieved its best-ever first quarter total gross production of 226,000 b/d, up from 180,000 b/d in the first quarter of 2019.

- Imperial Oil is reducing its spending for this year by $1 billion, including a $500-million cut to its capital spending, in response to lower prices resulting from the combined effects of the COVID-19 pandemic and oversupply in the global market.

- The company says its capital budget for this year is now $1.1 to $1.2 billion, down from its original guidance for $1.6 to $1.7 billion. Imperial Oil also says it has found opportunities to reduce operating spending by $500 million compared with last year.

Impact of Covid-19 and Government's Response

- Petroleum prices are currently below the operating costs of most oil sands producers.

- To help alleviate the current crisis in the sector, the Government of Canada announced support measures on April 17, 2020, totalling over $2 billion. These measures consist of:
    - Up to $1.7 billion in total to the provincial governments of Alberta, Saskatchewan and British Columbia and to the Alberta Orphan Wells Association to support work to clean up orphan and inactive oil and gas wells across western Canada;
    - $750 million to Natural Resources Canada over two years, starting in 2020-2021, to create a new program to work with conventional and offshore oil and gas firms to reduce their greenhouse gas emissions. This program will support eligible energy sector firms in making capital investments necessary to reduce greenhouse gas emissions, with a focus on methane. The support will assist firms that are preparing to make changes in order to comply with provincial requirements or federal methane regulations; and
    - Expanding the Business Credit Availability Program support to medium-sized businesses with larger financing needs, starting with companies in Canada's energy sector. This support, provided by the Business Development Bank of Canada and Export Development Canada, will flow to viable Canadian energy sector companies to sustain access to reserve-based credit, help firms maintain access to the transportation and storage system, and provide additional working capital.

- These actions are supplemented by additional actions to bring forward regulatory flexibility, provide guidance on essential services, and support international negotiations through the G20 on market stability.

Clean Fuel Standard (CFS)

- The CFS is to be a flexible, technology-neutral, performance-based standard with several liquid stream compliance pathways proposed, including:
  - Reducing emissions through upstream actions of fossil fuels (e.g. carbon capture and storage, co-processing renewable feedstocks in a refinery)
  - Blending low-carbon fuels (i.e. biofuels)
  - End-use fuel switching (e.g. electric vehicles, natural gas freight trucks)
  - Paying into a compliance fund; and,
  - A credit trading system.

- Industry stakeholders continue to raise concerns with the CFS' regulatory design:
  - Refiners, oil and gas, mining: cumulative impact of the CFS, output-based pricing system, and other carbon polices (e.g. methane regulations);
  - Oil and gas: potential negative impact on investment in Canada due to the cost of compliance and layering of other carbon regulations;
  - Refiners: limited global availability of low-carbon fuel; and,
  - Low-carbon fuel producers: the need for a clear market signal for the required level of low-carbon fuel investments.

- On April 24, 2020, ECCC announced changes to their plan to finalise and enforce the CFS, including a delay in the publication of the draft regulations for the liquid fuel stream in Canada Gazette I (CG1), from June 2020 to fall 2020. ECCC intends for the liquid stream regulations to come into effect in mid-2022, with the gaseous and solid streams following a year later in 2023.

- A delay in CG1 provides the opportunity to adjust the design of the regulations to address some remaining issues, reassess costs in light of the new economic reality, while also completing development of the new life cycle assessment (LCA) tool, compliance fund and credit trading system.

- Industry has requested that implementation of the regulation be deferred in light of the current pandemic. Companies are currently focused on supporting essential business activities and cannot meaningfully engage in consultations with ECCC on regulatory development. Also, given the current market uncertainty and liquidity constraints, companies are limited from being able to invest in compliance strategies that will allow them to meet requirements once the regulation comes into effect in 2022.

- The Government of Canada is also examining which existing government programs can and will support industry in the implementation of the regulation.

POINTS TO REGISTER

Clean Fuel Standard

- We understand industry's concerns with the CFS and other regulatory compliance costs, especially in light of the current severe downturn in the petroleum sector.

- We would like to better understand the rationale for and feasibility of a delay in and/or changes to the CFS, while still achieving its key targets and objectives.

- ECCC continues to work on the compliance cost estimates for the liquid stream, to be published with the draft regulations in fall 2020. ECCC has not shared the cost estimates at this time.

- We understand that the implementation of the CFS and other environmental regulations will need to be balanced against the economic restart as well as the recovery of the petroleum sector.

- We encourage continued dialogue between government and industry throughout the duration of the recovery from the current crisis.

- What further information can Imperial Oil provide to support the evidence base as we move forward with the CFS regulatory process?

Economic Restart and Recovery

- The Department continues to engage industry on pinch points and challenges as we look to support a seamless economic restart.

- What does Imperial Oil see as the greatest barriers to supporting this restart across its operations?

- What are Imperial Oil's longer-term priorities around stimulating economic growth and recovery?

Net-Zero Emissions

- The Government of Canada has stated its intention to achieve net-zero emissions by 2050, in part by affecting transformative changes to:
    - Produce cleaner petroleum;
    - Support clean power;
    - Strengthen energy efficiency; and
    - Promote low-carbon fuels.

- Canada's petroleum sector is a leading source of innovation and investments in clean technology. To achieve net-zero, further action will be required to support:
    - Mission-focused, technology commercialisation such as clean power/heat sources (small modular reactors, renewables, decarbonised natural gas) and methane-reducing technology;
    - Low-emitting natural gas liquids, liquefied natural gas, and clean hydrogen production; and
    - Digitalisation, automation, and the use of artificial intelligence.

- What are Imperial Oil's priorities to drive emissions reductions to achieve 2030 and 2050 climate objectives? What do you see as the principal challenges that would need to be overcome?